BARTON BRANDS

ANNUAL REPORT 1980

FINANCIAL HIGHLIGHTS

	Years Ended June 30	
	1980	**1979**
Net Sales	**$145,090,000**	$117,520,000
U.S. and U.K. Excise Taxes. . . .	**89,276,000**	73,960,000
Earnings Before Income Taxes . .	**2,945,000**	4,596,000
Provision for Income Taxes (Benefit)	**(2,076,000)**	627,000
Net Earnings.	**5,021,000**	3,969,000
Net Earnings Per Unit of Partnership Interest	**1.97**	1.55

Earnings per unit are based on the weighted average units outstanding in each year.

FINANCIAL POSITION

Total Assets	**$71,960,000**	$ 66,357,000
Total Liabilities . .	**40,689,000**	35,635,000
Working Capital . .	**31,968,000**	32,615,000
Partners' Equity . .	**31,271,000**	30,722,000
Book Value Per Unit of Partnership Interest	**12.24**	12.02

TO OUR LIMITED PARTNERS:

We are pleased to report that net earnings of Barton Brands, Ltd. and its consolidated subsidiaries for the fiscal year ended June 30, 1980 increased significantly, due to a favorable change in the United Kingdom tax laws.

However, net earnings before income taxes were substantially lower because of increased marketing expenses in support of new and existing products, significantly higher interest expenses and lower profit margins caused by changes in product mix.

Net earnings of Barton Brands, Ltd. and its consolidated subsidiaries for the fiscal year ended June 30, 1980 were $5,021,000, or $1.97 per partnership unit, up from $3,969,000, or $1.55 per partnership unit, in the previous fiscal year.

Net sales for the year were a record $145,090,000, as compared to $117,520,000 for the previous year. Profit margins, however, were narrower by reason of a decrease in sales of the more profitable bourbon whiskies and an increase of the sales of the less profitable vodkas and gins. Marketing development expenses were higher than last year with major programs being carried out to develop new products and to support existing products that hold the best long term potential for sales and profits. Administrative expenses increased modestly.

Interest expense net of interest income increased by $1.5 million. Most of the increase was due to the abnormally high interest rates during the year with the balance of the increase relating to an increase in our debt.

The net tax credit for fiscal 1980 was brought about by a change in the law in the United Kingdom relating to the income tax liabilities of the partnership's U.K. subsidiaries, resulting in a net credit of $2,291,000 or 90¢ per partnership unit.

Net earnings in the fourth quarter of fiscal 1980 were $612,000, or 25¢ per partnership unit, down from $1,398,000, or 55¢ per unit, for the corresponding period of the prior year. Sales in the fourth quarter were $43,049,000, up from $33,642,000 in the final quarter of the preceding year. The fourth quarter results were benefited by revenues received under service agreements with another distiller.

PARTNERSHIP TAX INFORMATION

The Partnership's net earnings for U.S. income tax purposes for fiscal year 1980 are 77¢ per unit. The difference between the reported earnings of $1.97 per unit and taxable earnings is attributable to two factors. The first is that unrealized gains or losses on translation of foreign currency and earnings derived from our corporate subsidiaries are not taxable to our partners (and this year, as explained above, our U.K. subsidiaries had a substantial tax credit). The second is that there are differences in timing between the accrual of certain expenses, such as deferred compensation and depreciation and their deductability for income tax purposes.

FINANCIAL CONDITION

The Partnership's financial condition as of June 30, 1980 continues quite strong. Net working capital totaled $32 million, compared to $32.6 million last year. Long-term debt increased to $6.1 million from $3.3 million a year earlier. Partners' capital (our net worth) at year end totaled $31.3 million, or $12.24 per unit, compared to $30.7 million or $12.02 per unit last year.

The Partnership may, from time to time, purchase partnership units.

CASH DISTRIBUTION

The Partnership will make a cash distribution of 60¢ per partnership unit payable October 15, 1980 to partners of record September 30, 1980. During the past year, distributions aggregating $1.75 per unit were made ($1.00 on October 15, 1979 and 75¢ on May 15, 1980.) Including the payment to be made in October, the total amount that has been distributed by the Partnership since its formation in 1972 is $38.9 million, or $14.90 per unit.

CURRENT OUTLOOK

The whiskey segment of the beverage alcohol category has been marked by little or no growth during the past several years. In the expectation that this trend will continue in the years ahead, we are expanding our efforts to diversify our product line through the addition of products in those segments that hold the most promise for future growth.

The past fiscal year was notable in that we added several new products to our line. We entered the highly profitable ceramic bottle business through the acquisition of the Lionstone line of ceramics, long considered a quality line of ceramic bottles.

We significantly strengthened our position in the bottled-in-U.S. segment of the Canadian whisky category—one of the few whiskey categories that has continued to grow in recent years—through the acquisition of an interest in a Canadian distiller and by taking over the marketing of two established brands—Canadian Host and Canadian Supreme.

We also organized a wine sales division and are in the process of completing arrangements with various foreign and domestic suppliers. Barton Signature Wines will offer a full range of imported and domestic wines.

We are also seeking products outside the beverage alcohol category. Within the past three months, we began distribution of Coco-Mate, a line of coconut-based natural flavored beverage mixes.

Over the years, we have provided distilling, warehousing and bottling services to other distillers. In the past year, we entered into agreements to provide such services to another distiller over a five-year period. It is anticipated that these agreements will have a material favorable impact on our operating results during the periods involved.

Our long range plans envisage continued support of our established whiskey products as well as product line diversification. During the 1981 Fiscal Year, much of our efforts will be devoted to the development of the several new products that we added in the past year. We fully expect that the 1981 Fiscal Year will be a year of growth for the Partnership.

Lester S. Abelson

LESTER S. ABELSON
General Partner

OSCAR GETZ
General Partner

1980: Growing through diversification.

1980 will definitely go down in Barton's history as our year of diversification.

In 1980, we developed new product lines in categories showing the greatest growth potential.

At the same time, case sales of our ongoing brands improved even though many are in declining categories.

An Ever-Growing Line of New Products

Barton Signature Wines

Last April, Barton announced the formation of a new wine division, Barton Signature Wines.

Through Barton Signature, the Company will market a complete line of wines imported from Italy, Germany, France and Spain, as well as a line of California wines. Initially, the following brands will be featured: Lamborghini, Dourthe, Strozzi, Bardi, Spinnelli, Astori, Tudia, Pouilleray and Martinskeller.

Barton views the formation of this new divison as a prime opportunity because wine consumption continues to accelerate.

Lionstone Ceramic Decanters

One of the more important speciality areas in today's liquor industry is porcelain, collector/commemorative liquor decanters.

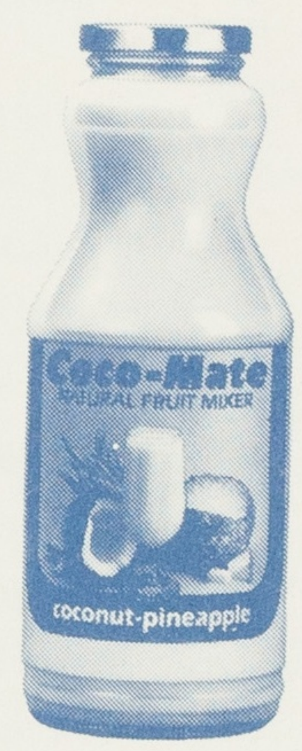
In January, Barton acquired the ceramic decanter business of Lionstone Distillers, Ltd., often referred to as the "Tiffany of liquor decanters."

Coco-Mate

When it comes to food and beverages, "natural" is the key word as far as today's American consumers are concerned. So, we're extremely pleased to report that in May, Barton Brands took over exclusive rights to Coco-Mate, a 100% natural beverage mix.

Coco-Mate makes an excellent non-alcoholic cooler when served straight over ice. And when it's mixed with rum or vodka, it makes the perfect Pina Colada.

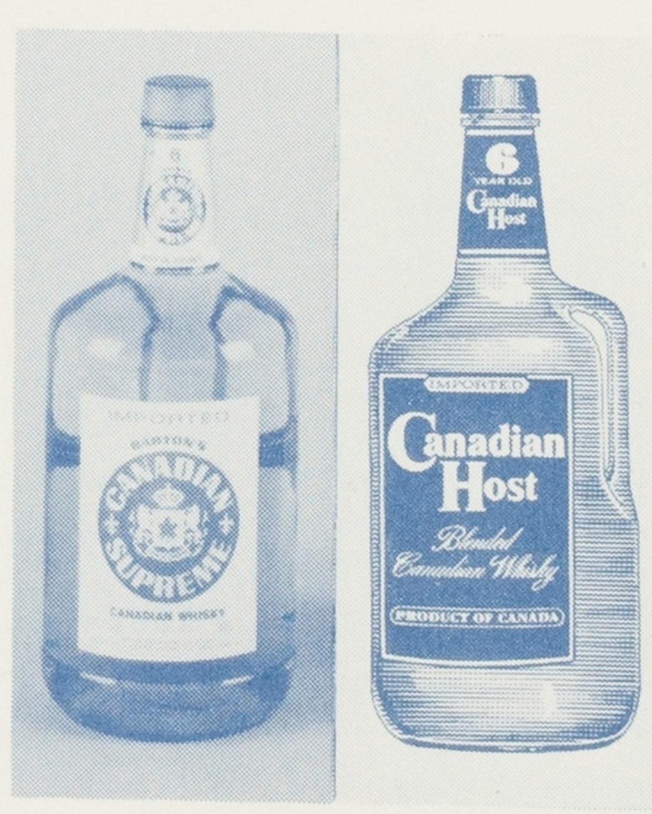
Four flavors of Coco-Mate, (Coconut-Pineapple, Coconut-Strawberry, Coconut-Banana and Coconut-Creme) will be sold nationally in food stores, supermarkets and liquor stores. Coco-Mate will be backed with a full line of promotional materials and a high-powered merchandising campaign that includes extensive consumer tastings.



Canadian Supreme/Canadian Host

In April, Barton Brands acquired an interest in Melcan, Ltd. a Canadian whisky company and took over marketing responsibility for two fine Canadian imports, Canadian Host and Canadian Supreme.

Both products will be promoted in unique, cut glass decanters and will be available in specially designed Christmas packaging.



Apple Amber

In spite of enthusiastic consumer acceptance of Apple Amber, Barton and our joint venture partner, La Cidrerie Du Quebec, mutually concluded, after an extensive testing program, that long term costs involved in developing an entry in the new cider category would be higher than anticipated. Accordingly, we have suspended promotion of the brand.

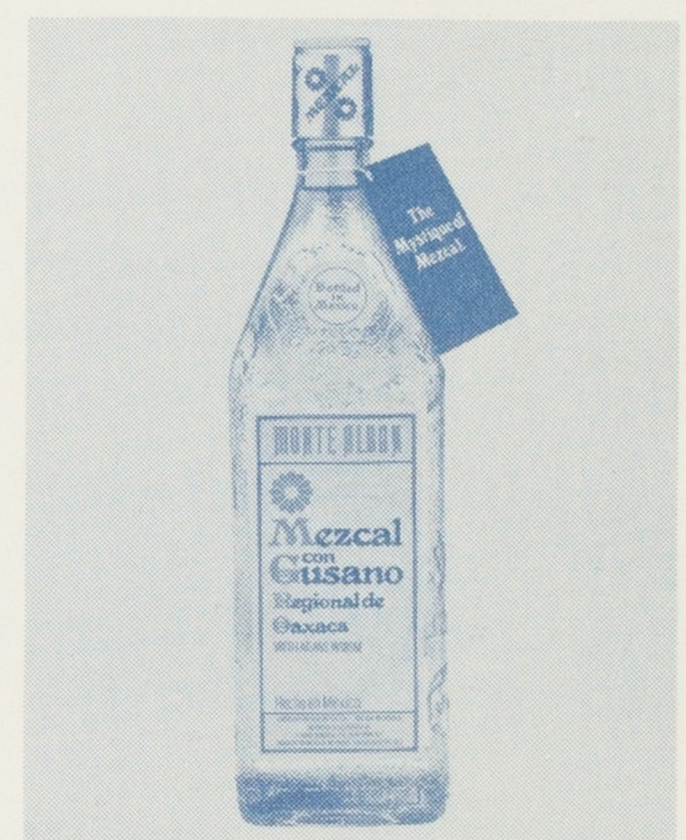
The Mexican Connection

Once again in FY 1980, Barton's sales of its line of Mexican spirits continued to grow. As a result we were able to provide additional support for the brands showing the most potential.

Monte Alban Mezcal

Monte Alban, the number one selling Mezcal in the U.S. and Mexico, is featured in one of 1980's hottest movies, Paramount Pictures,' *"Urban Cowboy."* To enhance our leadership we're running a Monte Alban *Urban Cowboy Contest* nationally in major consumer magazines. And we're backing it with an all out merchandising campaign.

We'll also be introducing a new 500 ML size to further stimulate consumer trial of this unique product.



Sabroso Coffee Liqueur

Sabroso, our choice entry in the fast-growing coffee liqueur category, continues to grow. Prospects for Sabroso look encouraging as we head into FY 1981. We'll be supporting Sabroso with full line promotional materials designed to encourage retail display and consumer trial.

Amaretto de Sabroso

Amaretto de Sabroso, our second entry in the thriving, imported cordial/liqueur category, has been in the marketplace for only one year. In just this short time it has become an important profit contributor, even though it's in an extremely competitive category. We expect Amaretto de Sabroso to continue its contribution to the Barton profit picture in FY 1981.

BARTON BRANDS

LTD. (an Illinois Limited Partnership)
and Subsidiaries

Mango de Sabroso

Due to the initial acceptance and future potential of our first two imported Mexican cordial/liqueurs, we are testing new Mango de Sabroso.

The exotic mango is the world's oldest known fruit. For centuries men have sought out its sweet spicy taste. And now, Barton is the first to capture the essence of mango in a delightful, one-of-a-kind liqueur.

Montezuma Tequila

Once again in 1980, Montezuma was a leader in this category. The western U.S. is our top marketing area and young adults are our best customers.

To keep Montezuma moving, we back it with the kind of advertising and promotional events young adults like. We're in our 4th year of sponsoring Chili Cook-Offs. And we're also sponsoring two formula cars on the racing circuit that draws thousands to every event.

Barton's Staples

As always, Barton continues to support its proven, old-line products in markets especially selected for their potential.

Barton QT Premium Light Whiskey

Barton's QT continues to show increased profit and sales potential. The reason is, very simply, QT has the light flavor that whiskey consumers have been turning to. Result: QT is the leader in its category.

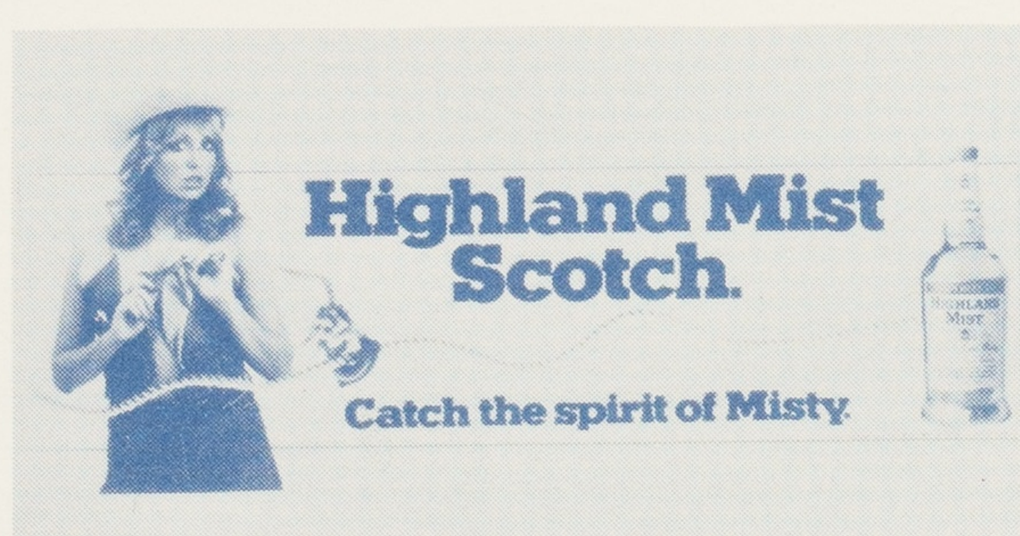
Because QT has proven so responsive to marketing support in selected marketing areas, plans are being developed to expand the brand into new marketing areas.

The Scotch Picture

The Scotch category is in a period of decline. However, Barton's entries appear to be holding their own.

Highland Mist

In spite of the less than bright national Scotch sales picture, Highland Mist maintained its market share in its major markets— particularly in Texas, where we are the number two U.S. bottled Scotch. We're also pleased to report that 12-Year-Old Highland Mist showed continued growth.



House of Stuart

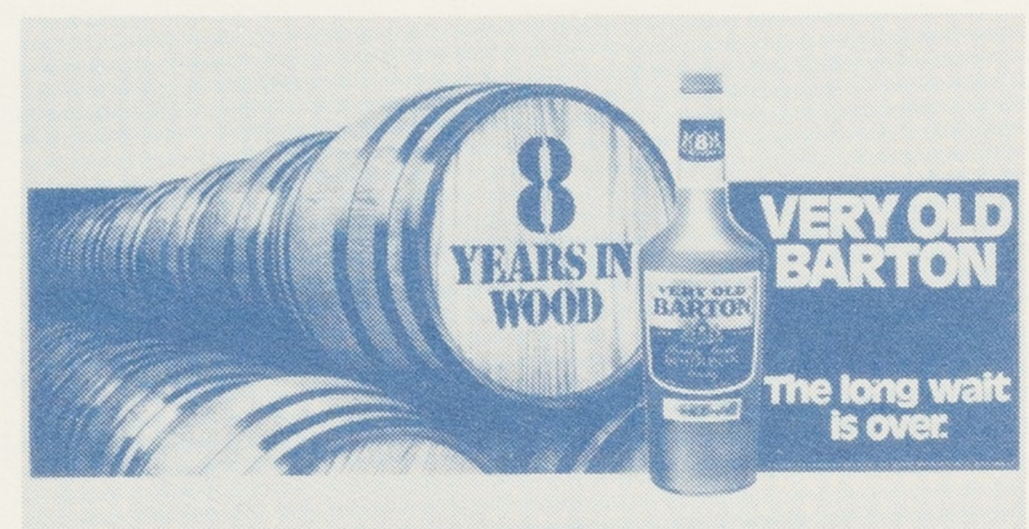
Sales of House of Stuart, which has a strong, established, consumer franchise, remained stable and its overall profitability improved in control states. 12-Year-Old House of Stuart also continues to enjoy additional growth in control state markets.

Bourbon Levels Off

Although the bourbon category has been in a state of decline for the last several years, things finally seem to have leveled off. We're pleased to report that Barton's entries seem to have come through in good health.

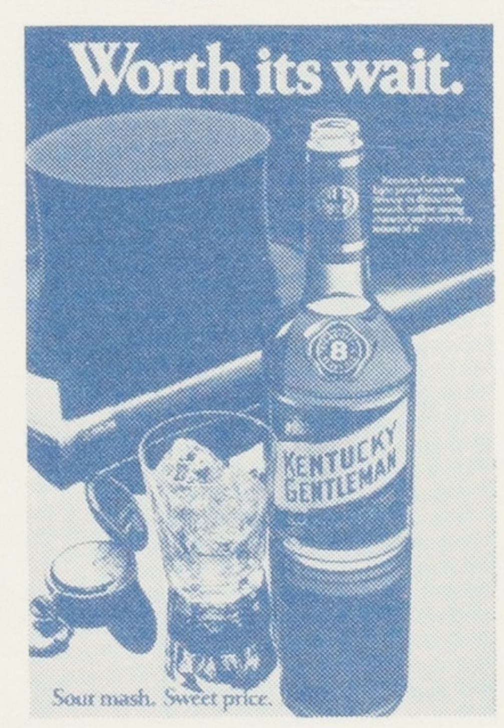
Very Old Barton

Very Old Barton continues to hold its spot as the most popular bourbon in the heart of bourbon country—Kentucky and Tennessee. This is due in great measure to striking outdoor, selectively placed newspaper advertising and eye-catching point-of-sale.



Kentucky Gentlemen

Thanks to our proven dual product strategy, our 5 and 8-Year Old products continue to strengthen their position in control states. To insure growth and profitability of these brands, we will continue to support them with strong, strategically-placed advertising support in major consumer magazines and newspapers in all key growth states.



Barton Vodka and Barton Gin

The company continued to market its name brand white goods products, Barton Vodka and Barton Gin, nationally in FY 1980. Barton Vodka and Barton Gin are attractively packaged and priced to move.

Just two years after national introduction, Barton Vodka is one of the company's major brands. Continued growth is projected for FY 1981.

Barton Vodka and Barton Gin continued to play an important role in helping Barton Brands achieve its goal of becoming a more important supplier to its wholesale network.

BARTON BRANDS, LTD. (an Illinois Limited Partnership) and Subsidiaries

STATEMENTS OF CONSOLIDATED EARNINGS

YEARS ENDED JUNE 30

	1980	1979
Net Sales (Note 1)	**$145,089,754**	$117,520,130
Cost of Sales (Note 1)	**131,040,553**	103,993,514
Gross Profit on Sales	**14,049,201**	13,526,616
Marketing and Administrative Expenses	**9,369,184**	7,805,044
Operating Income	**4,680,017**	5,721,572
Other (Income) or Deductions		
Interest expense	**2,816,890**	1,449,534
Interest income	**(630,795)**	(781,811)
Other (income) or deductions—net	**(451,091)**	457,891
	1,735,004	1,125,614
Earnings Before Income Taxes	**2,945,013**	4,595,958
Provision for Income Taxes (Benefit) (Notes 1 and 7)	**(2,076,359)**	627,100
Net Earnings (Note 1)	**$ 5,021,372**	$ 3,968,858
Net Earnings Per Unit (Note 1)	**$ 1.97**	$ 1.55

The accompanying notes are an integral part of these statements.

STATEMENTS OF CONSOLIDATED PARTNERS' CAPITAL

YEARS ENDED JUNE 30

	1980	1979
Partners' Capital—Beginning	**$30,721,973**	$30,843,932
Net Earnings	**5,021,372**	3,968,858
Cash Distributions:		
2,558,534 units at $0.60 per unit	**—**	(1,535,120)
2,555,157 units at $1.00 per unit	**(2,555,157)**	(2,555,157)
2,555,150 units at $0.75 per unit	**(1,916,363)**	—
Additional Contributed Capital	**2,347**	21,181
Issue of New Partnership Units	**—**	3,183
State Income Taxes Paid on Behalf of Partners	**(3,197)**	—
Purchase and Cancellation of Partnership Units	**(70)**	(24,904)
Partners' Capital—Ending	**$31,270,905**	$30,721,973

The accompanying notes are an integral part of these statements.

STATEMENTS OF CONSOLIDATED CHANGES IN FINANCIAL POSITION

YEARS ENDED JUNE 30

	1980	1979
SOURCES OF WORKING CAPITAL		
From Operations		
Net earnings	**$ 5,021,372**	$ 3,968,858
Add (deduct) items not affecting working capital		
Depreciation and amortization	**973,172**	469,574
Increase in deferred compensation	**226,132**	211,040
Increase (decrease) in deferred taxes on income	**(2,290,890)**	544,400
Working capital provided from operations	**3,929,786**	5,193,872
Gain on sales of property, plant and equipment	**9,412**	7,915
Decrease in deferred charges	**208,506**	180,156
Increase in long-term debt	**2,753,699**	—
Increase in contributed capital	**2,347**	21,181
Issuance of Partnership units	**—**	3,183
Total	**6,903,750**	5,406,307
USES OF WORKING CAPITAL		
Additions to property, plant and equipment—net	**2,678,749**	593,321
Investments	**397,095**	—
Decrease in long-term debt	**—**	2,000,000
Cash distributions	**4,471,520**	4,090,277
State income taxes paid on behalf of partners	**3,197**	—
Purchase and cancellation of Partnership units	**70**	24,904
Total	**7,550,631**	6,708,502
DECREASE IN WORKING CAPITAL	**$ (646,881)**	$(1,302,195)
INCREASES (DECREASES) IN WORKING CAPITAL COMPONENTS		
Cash and commercial paper	**$(1,471,174)**	$(1,048,928)
Receivables	**1,598,271**	5,050,209
Inventories	**3,590,873**	1,084,883
Increase in current assets	**3,717,970**	5,086,164
Distributions payable	**—**	(1,534,892)
Notes payable—banks	**8,514,818**	(518,196)
Current maturities—long-term debt	**(1,556,516)**	1,806,400
Accounts payable—trade	**41,719**	1,698,344
Accrued liabilities	**(2,719,984)**	4,858,449
U.S. and foreign taxes on income	**84,814**	78,254
Increase in current liabilities	**4,364,851**	6,388,359
DECREASE IN WORKING CAPITAL	**$ (646,881)**	$(1,302,195)

The accompanying notes are an integral part of these statements.

BARTON BRANDS
LTD. (an Illinois Limited Partnership)
and Subsidiaries

CONSOLIDATED BALANCE SHEETS JUNE 30

ASSETS	1980	1979
Current Assets		
Cash and commercial paper	**$ 6,317,581**	$ 7,788,755
Receivables		
Trade (less allowance for doubtful accounts—$187,386 and $307,386 respectively)	**21,291,567**	20,020,707
Other	**478,428**	287,831
Other current assets	**632,012**	495,198
Inventories (Note 1)		
Bulk whiskeys (Notes 3 and 6)	**31,281,931**	28,158,752
Case goods	**3,965,704**	4,015,038
Raw materials and supplies	**2,099,791**	1,582,763
	37,347,426	33,756,553
Total current assets	**66,067,014**	62,349,044
Property, plant and equipment (Notes 1 and 3)		
Land	**244,153**	244,153
Buildings	**5,074,438**	4,701,322
Machinery and equipment	**9,577,604**	7,343,502
	14,896,195	12,288,977
Less accumulated depreciation and amortization	**9,427,060**	8,516,007
	5,469,135	3,772,970
Investments—at cost (Note 2)	**397,095**	—
Deferred charges	**26,301**	234,807
	$71,959,545	$66,356,821

The accompanying notes are an integral part of these statements.

LIABILITIES AND PARTNERS' CAPITAL	1980	1979
Current Liabilities		
Notes payable—banks (Note 4)	**$11,919,242**	$ 3,404,424
Current maturities—long-term debt (Note 3)	**4,568,384**	6,124,900
Accounts payable—trade	**3,657,339**	3,615,620
Accrued liabilities		
Taxes, other than income taxes (Note 1)	**11,255,685**	14,478,450
Other	**1,954,506**	1,451,725
U.S. and foreign taxes on income (Notes 1 and 7)	**743,842**	659,028
Total current liabilities	**34,098,998**	29,734,147
Long-Term Debt (Note 3)	**6,053,699**	3,300,000
Deferred Income Taxes (Note 1)	**—**	2,290,890
Deferred Compensation (Note 5)	**535,943**	309,811
Commitment and Contingencies (Note 6)	**—**	—
Partners' Capital		
Outstanding 1980, 2,555,150 units; 1979, 2,555,157 units	**31,270,905**	30,721,973
	$71,959,545	$66,356,821

NOTES TO FINANCIAL STATEMENTS

YEARS ENDED JUNE 30, 1980 and 1979

(1) Summary of Significant Accounting Policies

Principles of Consolidation—The consolidated financial statements include the accounts of the Partnership and its subsidiaries, all of which are wholly-owned. European subsidiaries are included in the Consolidated Financial Statements on the basis of fiscal years ended April 30.

Translation of Foreign Subsidiaries—Amounts relating to foreign currencies have been translated into U.S. dollar amounts in accordance with the provisions of the Financial Accounting Standards Board Statement No. 8. Foreign exchange gains or losses are included in income in the period in which they occur. For the years ended June 30, 1980 and 1979, foreign exchange losses amounted to $143,000 and $295,000, respectively. For income tax purposes, such gains or losses are not recognized until realized.

Inventories—Approximately 23% of the total cost of inventories at June 30, 1980 was determined by the last-in, first-out (LIFO) method (24% at June 30, 1979). Had such inventories been determined by the first-in, first-out and average cost methods, the total inventory costs in the accompanying balance sheets would have been increased by $5,619,000 at June 30, 1980 ($3,219,000 at June 30, 1979). The remainder of the inventories are priced at cost determined by specific identification, average cost or first-in, first-out methods. Costs determined by the various methods referred to above were not in excess of market.

During the years ended June 30, 1980 and 1979, certain quantities of whiskey, both produced and purchased, which are valued on a LIFO basis were reduced. Management estimates that had the inventory quantities remained constant, earnings for the years would have been reduced by $51,000 and $355,000, respectively.

A substantial portion of the inventories will not be sold within one year because of the duration of aging processes. All inventories are classified as current in accordance with industry practice.

U.S. and Foreign Excise Taxes—In accordance with industry practice, both net sales and cost of sales for the years ended June 30, 1980 and 1979 include excise taxes of approximately $89,276,000 and $73,960,000, respectively.

Excise taxes included in current liabilities at June 30, 1980 and 1979 are approximately $10,831,000 and $13,940,000 respectively. Effective December 31, 1979, the Internal Revenue laws affecting the accrual of excise taxes were amended resulting in a decrease of the liability at June 30, 1980 by $4,314,000.

Earnings Per Unit—Earnings per Partnership unit are based upon the weighted average units outstanding during each fiscal period.

Property and Depreciation—Property, plant and equipment are stated at cost. Depreciation and amortization are provided on a straight-line basis over the estimated useful lives as follows:

Buildings and improvements	7 to 33 years
Machinery and equipment	3 to 10 years

Taxes on Income—As a partnership, Barton Brands, Ltd. is not subject to Federal income taxes. Instead, each partner will be taxed on his share of the Partnership's taxable income, whether or not distributed, and will be entitled to deduct on his own tax return, his share of any net losses of the Partnership to the extent of the tax basis of his Partnership interest.

The Partnership's net earnings for income tax purposes will differ from the net earnings for the periods reported herein. As required by the Tax Reform Act of 1976, the Partnership's net earnings for each fiscal year are allocated on a daily basis among the holders of units during such fiscal years in proportion to their respective Participating Percentages (except for extraordinary items which are allocated as determined by the Corporate General Partner). The earnings of the Partnership's corporate subsidiaries are not currently taxable to the partners.

Earnings of the Partnership and its corporate subsidiaries for the fiscal years ended June 30, 1980 and 1979 were:

	Amount		Per Partnership Unit	
	1980	1979	1980	1979
Partnership Earnings	$2,176,000	$4,499,000	$0.85	$1.76
Earnings of Corporate Subsidiaries Before Income Taxes	769,000	97,000	0.30	0.04
Income Tax Expense (Benefit)	(2,076,000)	627,000	(0.82)	0.25
	2,845,000	(530,000)	1.12	(0.21)
Net earnings	$5,021,000	$3,969,000	$1.97	$1.55

The amount of Partnership earnings which are taxable to partners is expected to be approximately $1,961,000 ($0.77 per unit) for the fiscal year ended June 30, 1980. The Partnership agreement provides that the Partnership shall make annual cash distributions to its partners in an amount equal to not less than 50% of the taxable income of the Partnership in each fiscal year, and that each distribution will be made not later than 150 days after the close of such fiscal year.

In September, 1979, the Financial Accounting Standards Board released Statement of Financial Accounting Standards No. 31 on accounting for tax benefits related to U.K. tax legislation concerning inventories. Accordingly, since the Partnership does not expect that its inventories in the U.K. will be reduced in future periods, the accompanying financial statements contain no deferred tax provision for the current year and reflect reversal of the previously reported provisions for deferred income taxes in the amount of $2,291,000 ($0.90 per unit).

The Partnership and the Partners may be subject to state and local taxes in jurisdictions in which the Partnership may

be deemed to be doing business or in which it owns property or other interests.

(2) Investments

During the year ended June 30, 1980, the Partnership purchased nonvoting common stock representing an 11½% interest in a Canadian distiller.

(3) Long-Term Debt and Collateral Pledged

Long-term debt at June 30, 1980 and 1979 consisted of the following:

	1980	1979
Notes Secured by Bulk Whiskey		
114% of Prime rate of Lenders. Due 50% June 30, 1982; balance June 30, 1983. .	$ 2,000,000	$4,000,000
114% of Prime rate of Lenders. Due 50% January 31, 1982; 25% January 31, 1984; balance January 31, 1985.	1,300,000	1,300,000
110% of Prime rate of Lenders. Due 50% January 31, 1984; 25% January 31, 1986; balance January 31, 1987.	2,200,000	—
Total secured by bulk whiskey inventory at LIFO cost of $5,362,000 at June 30, 1980 and $4,590,000 in 1979	5,500,000	5,300,000
Barton Distilling (Scotland) Ltd. £1,900,000 term loan, with variable interest not to exceed ½% above the Euro-dollar interbank rate, due July 1, 1980.	$ 4,455,500	$4,124,900
Barton Brands of Georgia, Inc. loan secured by equipment; payable in quarterly installments of $36,616, including interest at 10%, through December, 1984.	524,992	—
Long-term purchase contract for equipment; payable in monthly installments of $2,541, including interest, through December, 1986	141,591	—
Total	10,622,083	9,424,900
Current maturities	4,568,384	6,124,900
Long-Term Portion	$ 6,053,699	$3,300,000

Prime interest rates were 12% and 11½% at June 30, 1980 and 1979, respectively.

(4) Notes Payable—Banks

Notes payable to banks consist of short term borrowings of the Partnership ($7,000,000 at June 30, 1980) and the Partnership's European subsidiary.

Barton Distilling (Scotland), Ltd., a U.K. subsidiary of the Partnership, has granted a bank a mortgage and security interest in such subsidiary's real and personal property, to secure payment of any loans. At April 30, 1980, such loans amounted to $4,919,000 ($3,404,000 in 1979). These loans were secured by assets having an aggregate net book value on such date of approximately $16,810,000 ($14,365,000 in 1979).

(5) Deferred Compensation

The Partnership has entered into agreements with several key employees under which the employees were granted options to purchase Partnership units over a period of five years. Option prices are subject to reductions for cash distributions in excess of net earnings during the period. The agreement provides for a cash settlement alternative to the employees based upon net earnings during the period. The agreements entered into in 1975 include a second cash alternative based upon the increase in the fair market value of units during the period. At June 30, 1980, the following options were outstanding:

Options Granted: Date		July 1, 1975	October 1, 1975	Nov. 30, 1977	July 25, 1978	August 1, 1978
Number of Units		1,900	5,500	45,520	50,000	4,750
Options Exercised:						
9/30/76	—	(380)	—	—	—	—
8/26/77	—	(380)	—	—	—	—
8/30/78	—	(380)	—	—	—	—
		760	5,500	45,520	50,000	4,750
Option Price at June 30, 1980		$2.69	$2.69	$5.64	$7.00	$7.13

To the extent that the above agreements represent compensation to the employees, such compensation expense is being accrued over the agreement period.

(6) Commitment and Contingencies

a. Taxes

On April 29, 1977, the District Director of Internal Revenue in Chicago notified the Partnership of the Internal Revenue Service's determination with respect to the Partnership's income tax liability as successor to Barton Brands, Inc., for the taxable years of Barton Brands, Inc., ended June 30, 1966 and June 30, 1969 through June 30, 1972, inclusive and for the month of July, 1972, asserting deficiencies, including penalties, of approximately $2,300,000 exclusive of interest. The Partnership has filed a petition with the U.S. Tax Court contesting such determination. Income tax returns of the Partnership have been examined through 1977.

b. Litigation

In May, 1978, the management of the Partnership disclosed that it had ascertained that Partnership personnel had engaged in practices involving the payment of money or other financial benefits to wholesalers or retailers, in possible violation of Federal or state laws relating to the sale of alcoholic beverages. Many other firms in the industry have also publicly reported such practices. In accordance with Partnership policy, procedures have been established to ensure compliance by the Partnership with all applicable laws. The Partnership conducted an investigation of such past practices and has made a voluntary disclosure to the Bureau of Alcohol, Tobacco and Firearms as part of a program for such disclosure outlined in an industry circular issued by the Bureau in April, 1978. The Partnership could be subject to liabilities or suspension or revocation of licenses or permits

by Federal and state authorities. It could also be contended that the Partnership failed to make necessary disclosure with respect to such practices in violation of the Federal securities laws.

c. Purchase Commitment

On April 1, 1980, the Partnership made certain purchase price advances and entered into a long term agreement with a Canadian whisky distiller under which the Partnership has committed to purchase certain quantities of matured blended Canadian whisky over a five year period ending September 30, 1984. The remaining purchase price of such Canadian whiskies, which is payable as the whiskies are delivered approximates $2,900,000 at June 30, 1980.

(7) Income Taxes

The factors that cause the provision for income taxes to vary from the Federal Income Tax rates are as follows:

	1980	1979
Federal income taxes at statutory rate (46% and 47% in 1980 and 1979 respectively)	$1,354,706	$2,160,100
Effect of:		
Earnings Taxable to Partners	(902,279)	(1,956,600)
Foreign Currency Translation	65,733	309,800
Deferred Compensation	104,883	99,200
Current period benefit arising from U.K. stock relief	(340,221)	—
Reversal of previously provided deferred taxes arising from U.K. stock relief	(2,290,890)	—
Other	(68,291)	14,600
	($2,076,359)	$ 627,100

(8) Geographic Segment Information

The Partnership and its subsidiaries operate in a single industry segment, the alcoholic beverage industry.

The Partnership has its principal operations in the United States and in Europe. The following schedules represent information about the geographic areas in which the Partnership operates:

Years Ended June 30 ($000 Omitted)	United States	Europe	Consolidated
1980			
Sales	$131,150	$17,869	
Intersegment Sales (At Market)	(806)	(3,123)	
Sales to Unaffiliated Customers	$130,344	$14,746	$145,090
Operating Income	$ 2,582	$ 2,098	$ 4,680
Total Assets	$ 57,049	$14,911	$ 71,960
1979			
Sales	$111,661	$ 9,249	
Intersegment Sales (At Market)	(709)	(2,681)	
Sales to Unaffiliated Customers	$110,952	$ 6,568	$117,520
Operating Income	$ 4,200	$ 1,522	$ 5,772
Total Assets	$ 53,895	$12,462	$ 66,357

AUDITORS' REPORT

Partners of Barton Brands, Ltd.

We have examined the consolidated balance sheets of Barton Brands, Ltd. and Subsidiaries as of June 30, 1980 and 1979, and the related consolidated statements of earnings, partners' capital and changes in financial position for the years then ended. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances. We did not examine the financial statements of certain foreign subsidiaries whose assets and net sales represent 21% and 19% of consolidated assets in 1980 and 1979, and 10% and 6% of consolidated net sales in 1980 and 1979, respectively. These statements were examined by other auditors whose reports thereon have been furnished to us and our opinion, expressed herein, insofar as it relates to the amounts included for these subsidiaries, is based solely upon such reports.

As discussed more fully in note 6 to the consolidated financial statements, the Internal Revenue Service has proposed adjustments concerning the taxability of various past transactions, substantially related to the liquidation of Barton Brands, Inc. into Barton Brands, Ltd. We are unable to form an opinion on the adequacy of the income tax liability included in the consolidated financial statements because of the tentative status of the issue involved. In addition, management and special counsel conducted a joint review of certain past business activities of Barton Brands, Ltd. and the effects, if any, of the outcome of such review are not presently determinable.

In our opinion, based upon our examination and the reports of other auditors, and subject to the effects of such adjustments, if any, as might have been required had the outcome of the matters described in the preceding paragraph and in note 6 been known, the consolidated financial statements referred to above present fairly the consolidated financial position of Barton Brands, Ltd. and Subsidiaries as of June 30, 1980 and 1979 and the consolidated results of their operations and changes in their financial position for the years then ended, in conformity with generally accepted accounting principles applied on a consistent basis.

Alexander Grant & Company

Chicago, Illinois
August 15, 1980

FIVE YEAR SUMMARY OF OPERATIONS

	1976	1977	1978	1979	1980
NET SALES	$106,827,085	$104,336,862	$107,956,151	$117,520,130	$145,089,754
COST OF SALES	94,405,719	92,970,029	95,411,990	103,993,514	131,040,553
GROSS PROFIT ON SALES	12,421,366	11,366,833	12,544,161	13,526,616	14,049,201
MARKETING AND ADMINISTRATIVE EXPENSES	9,966,270	8,717,520	8,133,208	7,805,044	9,369,184
OPERATING INCOME	2,455,096	2,649,313	4,410,953	5,721,572	4,680,017
OTHER (INCOME) OR DEDUCTIONS					
Interest expense	699,034	933,315	1,031,764	1,449,534	2,816,890
Interest income	(485,029)	(503,994)	(550,253)	(781,811)	(630,795)
Other (income) expenses—net	(10,139)	231,776	366,724	457,891	(451,091)
	203,866	661,097	848,235	1,125,614	1,735,004
EARNINGS BEFORE INCOME TAXES	2,251,230	1,988,216	3,562,718	4,595,958	2,945,013
PROVISION FOR INCOME TAXES (BENEFIT)	72,000	277,900	356,800	627,100	(2,076,359)
NET EARNINGS	$ 2,179,230	$ 1,710,316	$ 3,205,918	$ 3,968,858	$ 5,021,372
WEIGHTED AVERAGE UNITS OUTSTANDING	2,636,233	2,634,565	2,583,249	2,556,748	2,555,155
PER UNIT OF PARTNERSHIP INTEREST	$ .83	$ .65	$ 1.24	$ 1.55	$ 1.97

PARTNERSHIP UNIT INFORMATION

The Partnership's units of limited partnership interest are traded in the over-the-counter market under the ticker symbol BBRLZ. The high and low quarterly bid and asked prices for the past two fiscal years were as follows:

	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
Fiscal 1980				
High bid and asked	10 3/4-11 1/2	11 3/4-12 1/2	12 1/4-13	10 1/2-11 1/2
Low bid and asked	9 1/2-10 1/4	8 1/4-9	9 1/4-10 1/4	9-10
Fiscal 1979				
High bid and asked	9 3/4-10 3/8	8 1/2-9 1/4	9 1/2-10 1/4	11-11 3/4
Low bid and asked	6 3/4-7 1/2	7-7 3/4	7 1/4-8	8-8 3/4

INTERIM FINANCIAL DATA

Condensed unaudited quarterly statements of income during the years ended June 30, 1980 and 1979, which aggregate to the annual audited results were as follows:

(Dollars in thousands except per unit amounts)

Year Ended June 30	Three Months Ended September 30	December 31	March 31	June 30	Total Year
1980					
Net Sales	$29,283	$38,969	$33,789	$43,049	$145,090
Gross Profit	2,852	4,549	3,018	3,630	14,049
Net Earnings	2,202	2,131	76	612	5,021
Per Unit	$ .86	$ .83	$ .03	$ .25	$ 1.97
1979					
Net Sales	$23,380	$32,127	$28,371	$33,642	$117,520
Gross Profit	2,583	4,336	2,799	3,809	13,527
Net Earnings	217	1,614	740	1,398	3,969
Per Unit	$ .08	$ .63	$ .29	$ .55	$ 1.55

One of the most outstanding products in our Signature Wine division is the Dourthe line of French Appellation Controlee Wines. The wines are being introduced in a unique grip magnum bottle. This special eye-catching bottle will stand out on retail shelves and consumers will be pleased with the ease of pouring the delightful Dourthe wines.

GENERAL PARTNERS

Lester S. Abelson
Oscar Getz
Barton Distilling Associates, Inc.

PRINCIPAL EXECUTIVES

Management

Oscar Getz
Chairman of the Board
Lester S. Abelson
President
Stuart R. Abelson
Executive Vice President
William M. Getz
Executive Vice President

Financial

Ralph D. Silver
Chief Financial Executive
Fred R. Mardell
Secretary
Raymond E. Powers
Controller

Operations

Paul L. Kraus
Chief Operations Executive

Sales Managers

Robert G. Miller
Control States
Thomas R. O'Shea
Lionstone Ceramics
Frank R. Wollman
Signature Wines
William Groman
Western Division
Harry Mekow
Midwest Division
Frank Wall
Eastern Division
Walter Williford
Southern Division
Bruce Curtis
Marketing Manager

Transfer Agent

American National Bank and
Trust Company of Chicago

Traded: Over-the-Counter
NASDAQ Symbol: **BBRLZ**

Any partner can obtain a free copy of the Partnership's Form 10-K annual report filed with the Securities and Exchange Commission for fiscal 1980 by writing to the Secretary, Barton Brands, Ltd.

BARTON BRANDS LTD. (an Illinois Limited Partnership)
and Subsidiaries
EXECUTIVE OFFICES
55 East Monroe Street, Chicago, Illinois 60603

BARTON BRANDS

ANNUAL REPORT 1980